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SUBJECT: CHAVEZ VISIT TO MOSCOW YIELDS LITTLE BEYOND TALK

Classified By: Charge d'Affaires Eric Rubin for reasons 1.4 (b) and (d)

1. (C) Summary: Russia's self-professed "multivector diplomacy" and a keen interest in picking Hugo Chavez's pocket resulted in a full program of meetings on July 22 with Medvedev and Putin, flanked by an array of senior Russian officials, even as Russia took steps to lower the profile of the hyperbolic Venezuelan leader. The Presidents discussed energy deals, military-technical cooperation, trade, and infrastructure investment, with Medvedev calling Venezuela an important partner in regional security, who shared the goal of making the world more "democratic, just and safe." Several energy deals were signed, but were focused on joint studies, not new investments in oil and gas field development, with companies signing up primarily to keep a foothold in Venezuela and possibly position themselves to secure better deals later. Despite press speculation in the run-up to the meeting, no arms deals were signed. The GOR was reportedly reluctant to allow Chavez to buy weapons on credit or to barter oil for them. End Summary.

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A Business Meeting, and Nothing More  
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2. (C) Chavez's sixth visit to Moscow produced the expected high-level program, including separate meetings with Medvedev and Putin, with each Russian leader flanked by an array of high-level officials, but was a streamlined affair, with none of the embellishments (defense company sightseeing, front row seats at the CIS Informal Summit) associated with earlier Venezuelan visitations. Experts described the meeting between Medvedev and Chavez as "business, nothing more." While Medvedev toasted Russian-Venezuelan growing relations, praised the partnership as "key" to preserving regional stability, and described Chavez as an "important partner," who shared Russia's goal of making the world more "democratic, just and safe," the Presidents' press conference ended abruptly, with no journalists apparently allowed to ask Chavez any questions. In addition, few reporters were given access to Maiendorf Castle in the Moscow Region, where the meeting took place, ostensibly because of a lack of space, although some experts speculated that the GOR did not want to give Chavez much opportunity to make his typical anti-U.S. remarks. Putin's meeting with Chavez received scant press coverage, with the substantive outcome Putin's agreement (to an insistent Chavez) to visit Caracas. While many topics were discussed, such as energy, weapons, trade, communications, and mining, few substantive deals were signed.

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Energy Cooperation Deals Signed

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¶3. (SBU) The reported deals signed by Russian oil companies TNK-BP, Lukoil, and Gazprom with Venezuela's PDVSA appear to be less significant than suggested by the media, even though Medvedev predicted they would lay the foundation for serious large-scale investment and for developing cooperation in all areas. The agreements, as outlined by the companies, call for "joint studies" and "evaluations" and "cooperation," but do not indicate any imminent major investments or oil and gas field development. Lukoil's agreement is to study the potential to produce and refine heavy oil from a specific block, and runs for two years. It follows a three-year agreement signed in 2005 to study the same block. The Gazprom deal is similar and pertains to a different block of the same region. Gazprom also had a comparable arrangement from 2005. TNK-BP's deal appears to be the same -- "A Joint Study Agreement ...to prepare technical and commercial proposals" for a third block in the same region -- and also follows up on a previous related MOU. Investment analysts also saw little value in the reported deals. One called the agreements "more symbolic than practical" and another suggested the deals could actually be detrimental, given the experience of foreign oil companies in Venezuela.

¶4. (C) TNK-BP's Vice President for International Affairs Shawn McCormick told us on July 23 that the deal had little significance. "It just means we signed another piece of nothing." McCormick believed all three companies were in the same position, signing agreements to be able to continue a presence in Venezuela with the hope of gaining an advantage on future opportunities. He forwarded an email from a colleague in Venezuela who noted that Lukoil had been trying for three years to come up with a good project in Venezuela, but, despite a \$40 million annual budget and 10 Russian expat staff, had little to show yet for its efforts.

¶5. (C) McCormick's colleague said that Gazprom's situation in Venezuela was different from that of Lukoil or TNK-BP in that the company was already involved in some development and exploitation work offshore with Petroleos de Venezuela S.A. (PDVSA). He added that the blessing of the Kremlin and Chavez yesterday could speed up Russian-Venezuelan projects, in that it would help mitigate some of the inherent political risk involved with the major long term investments in Venezuela.

¶6. (C) BP came out publicly on the TNK-BP agreement, saying it "fully supported" the proposal. A BP contact, however, noting that it's a minor deal, suggested we look at BP's statement in the context of the battle over TNK-BP, in which BP's Russian partners accuse it of blocking TNK-BP's international ventures.

¶7. (C) Don Walette, Russia/CIS President of ConocoPhillips (which owns 20% of Lukoil), told us July 23rd that "this is just a short-term appraisal program; one of those news-ink wasting deals that happen to get promoted when leaders get together." He said ConocoPhillips knows the property being assessed and is not impressed. Alfa Bank's Chief Strategist told us July 23rd that the deals "are just so much paper."

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Arms Sales Discussed, But Apparently Not Signed  
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¶8. (C) Despite extensive media reporting that Moscow and Caracas discussed new arms contracts worth over USD 2 billion, the GOR has not announced any new arms deals and experts tell us none were signed. Chavez reportedly would like to purchase 20 Tor-M1 and Tor-M2E midrange antiaircraft complexes, three or four Project 636 submarines, 12 Il-76 and Il-78 heavy military transport planes, and 24 Sukhoi fighter jets, and tanks. Venezuela would also like to purchase sniper rifles and Igla-S MANPADS, but, according to press reports, the GOR was concerned with the possible repercussions from Washington and Bogota should Chavez transfer these weapons to the FARC.

¶9. (C) Deputy Editor-In-Chief of the Independent Military Overview Viktor Litovkin told us the arms deals were not signed because the GOR was not prepared to extend Venezuela the credit it would need to make the purchase. Konstantin Makienko, an expert at the Center for Analysis Strategy and Technology, told Kommersant that "Moscow should be alarmed when, with the price of oil at over USD 130 per barrel, a member of OPEC is buying arms on credit."

¶10. (C) Izvestia political correspondent Dmitriy Litovkin told us that Venezuela also floated the idea of trading oil for arms. Russia could then sell the oil to a third party. While Venezuela often trades oil for commodities such as food, Litovkin said the GOR has plenty of its own oil and is not very interested in such a transaction.

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Comment  
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¶11. (C) Moscow remains unashamed of its relationship with the Venezuelan strongman and intent on expanding Russian economic and regional influence, with Medvedev's refusal to rule out the future formation of an OPEC style gas consortium indicative of GOR posturing. Nevertheless, Russia took steps not to give Chavez a platform to take potshots at the U.S.  
RUBIN